

## Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 EB-07 XMB-04 AID-05 AGR-10 CIAE-00

INR-07 NSAE-00 /044 W

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R 200535Z MAR 75

FM AMEMBASSY JAKARTA

TO USDOC WASHDC

SECSTATE WASHDC 7139

INFO AMCONSUL MEDAN

AMCONSUL SURABAYA

AMEMBASSY SINGAPORE

AMCONSUL HONG KONG

AMEMBASSY MANILA

UNCLAS JAKARTA 3351

E.O. 11652: N/A

TAGS: BEXP, ID

SUBJ: SUGAR MILL TASK FORCE - ACTIVITIES

REF: A) JAKARTA 2205

B) SURABAYA 0172

1. SUMMARY. SUGAR CONSORTIUM, FULTON AND ASSO-  
CIATES, CONCLUDED TALKS WITH TOP LEVEL GOI DECISION  
MAKERS IN JAKARTA WITH BRIGHT OUTLOOK FOR SUCCESS  
IN ITS EFFORTS TO WIN CONTRACT(S) FOR ONE OR MORE  
GOI FINANCED SUGAR MILLS. AMONG OFFICIALS TEAM  
MET WERE MINISTER OF AGRICULTURE, THOYIB; DR. GEN.  
MONETARY AFFAIRS, MINISTRY OF FINANCE, JULIANTO;  
DR. SALEH AFFIF, DEPUTY CHAIRMAN, BAPPENAS;  
MULUK LUBIS, DIRECTOR GENERAL OF ESTATES;  
AND SATAR LOEBIS, BKU-PNP-GULA STAFF. MEETINGS  
WERE ALSO ARRANGED WITH THREE PRIVATE SUGAR MILL  
INVESTORS. BANK OF AMERICA IS SOLIDLY COMMITTED  
TO SUPPORT FULTON AND ASSOCIATES CONSORTIUM. ENTIRE  
TASK FORCE VOICED GREAT PLEASURE WITH PROGRAMS  
IN JAKARTA AND SURABAYA AND DECLARED ITS DETERMINATION  
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TO FOLLOW UP WITH THE CONTACTS MADE. END SUMMARY.

2. FIRST CALL IN JAKARTA MADE BY SUGAR MILL CONSORTIUM, FULTON AND ASSOCIATES, WAS ON MINISTER OF AGRICULTURE THOYIB ACCOMPANIED BY AMBASSADOR NEWSOM. MINISTER PROVIDED FULL REVIEW CURRENT STATUS SUGAR INDUSTRY IN INDONESIA INCLUDING RATIONALE FOR RESTRICTIONS ON PRIVATE SECTOR MILLS ON JAVA, NOTING EXPORT INCENTIVES FOR NEW MILLS OUTSIDE OF JAVA. (35-0/0 FIRST FIVE YEARS AND 25-0/0 NEXT SEVEN YEARS WITH ALTERNATIVE OF GOI PURCHASING AT WORLD SUGAR FOB PRICES). HE NOTED GOI PLANNED SIX NEW PNP/PTP, 3/4000 TONS CPD MILLS FOR JAVA AND THAT TATE & LYLE FEASIBILITY STUDY WAS EXAMINING ADDITIONALLY TWO MILLS FOR JAVA, THREE ON LAMPUNG AND ONE ON SOUTH SULAWESI, ALL OF 6/8000 TONS CPD. AMBASSADOR QUESTIONED MINISTER ABOUT REPORTS THAT SIX NEW GOVERNMENT MILLS ALREADY COMMITTED TO EUROPEAN SUPPLIERS. THOYIB SAID THAT NO CONTRACTS HAVE BEEN LET AND THAT TENDER STILL UNDER PREPARATION BY HIS STAFF WITH ASSISTANCE OF A LOCAL CONSULTING FIRM (SGV UTOMO).

3. MEETING WITH BKU OFFICIALS LEAD BY MULUK LUBIS AND SATAR LOEBIS BEGAN IN COOL ATMOSPHERE WITH MULUK LUBIS' SKEPTICISM OF U.S. FIRMS' CAPABILITIES CLEARLY EVIDENT. MILLER AND ABERLE PRESENTATION PLUS COMPANIES' CAPABILITY BROCHURE AND SAMPLE TYPICAL MILL PROPOSAL HAD OBVIOUS POSITIVE IMPACT WITH RESULTANT LIVELY DISCUSSION. DESPITE GOI POLICY THAT RESERVES DISCUSSIONS OF FINANCING TERMS TO BAPPENAS, MINFIN AND BANK OF INDONESIA FOR DEVELOPMENT PROJECTS, BKU OFFICIALS INSISTED ON TALKING ABOUT FINANCING NOTING THAT BECAUSE OF FINANCING OFFERS AND KNOWLEDGE OF EQUIPMENT FRANCE, BELGIUM, NETHERLANDS, UK, FRG, JAPAN AND AUSTRALIA WERE ONLY SOURCES CONSIDERED. BANK OF AMERICA ASST. VICE PRESIDENT, PATRICK HELMHOLZ, INDICATED B OF A'S COMPLETE SUPPORT OF FULTON CONSORTIUM AND SAID THAT UNDER BUYER'S CREDIT PROGRAM OF U.S. EXIM BANK, SUGAR MILLS COULD BE FINANCED IN 1975. BKU OFFICIALS REITERATED THEIR BASIC REQUIREMENT FOR TURNKEY PROJECT INCLUDING UNCLASSIFIED

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AGRICULTURAL INFRASTRUCTURE THROUGHOUT SESSION. CONSORTIUM RECEIVED SATAR LOEBIS ASSURANCE THAT THE SPECIFICATIONS FOR GOI MILLS WOULD BE DRAFTED WITH PERFORMANCE SPECS OR EQUIVALENCY SPECS AND THAT 2 TO 2 1/2 MONTHS WOULD BE ALLOTTED FOR TENDERING. HE ALSO SAID GOI HAD SPOKEN TO FRENCH ABOUT FINANCING AND THAT IT WAS LIKELY IBRD WOULD FINANCE ONE MILL ON JAVA. MULUK LUBIS ASKED THAT EMBASSY PROVIDE

ASSURANCE THAT FULTON ASSOCIATES WAS LEGAL ENTITY AND SAME EVIDENCE OF CONSORTIUM'S INDIVIDUAL CAPABILITIES. COMMENT: EMBASSY IS WAITING FOR PROMISED MATERIAL TO BE OFFICIALLY TRANSMITTED TO MEET THIS COMMITMENT.

4. IN THE MEETING WITH JULIANTO, BANK OF AMERICA EMPHASIZED ITS INTEREST IN UTILIZING EXIM BANK'S COMMERCIAL BANK GUARANTEE PROGRAM AND JULIANTO EXPRESSED AFFIRMATIVE INTEREST INDICATING HE WOULD BE WILLING CONSIDER SUCH FINANCING IF CONSORTIUM WERE TO MAKE FIRM BID AGAINST TENDERS CALLED FOR BY BKU. JULIANTO ASKED ABOUT CONSORTIUM'S ABILITY TO PROVIDE TURNKEY PROJECT AND DELIVERY SCHEDULES. FULYN SPOKESMAN EXPLAINED THAT RECESSION PERMITTED SUPPLIERS TO OFFER EARLIER DELIVERIES THAT HAD BEEN CASE IN RECENT PAST. IN RESPONSE TO QUESTIONING ABOUT CONSORTIUM'S EXPERIENCE IN LDC'S, ABERLE DESCRIBED LANG ENGINEERING'S IVORY COAST SUGAR MILL PROJECT RECENTLY COMPLETED SOME 400 MILES FROM ANY ESTABLISHED INFRASTRUCTURE. JULIANTO WAS UNABLE TO PROVIDE STATEMENT OF GOI PRIORITIES IN RESPONSE TO QUESTIONING ON THIS POINT.

5. SALEH AFFIF, DEPUTY CHAIRMAN, BAPPENAS, SAID THAT AVAILABILITY OF ACCEPTABLE FINANCING TERMS WAS KEY FACTOR IN GOI'S PRIORITY SETTING PROCESS COMBINED WITH GOI'S KNOWLEDGE OF TECHNICAL EXPERTISE AVAILABLE IN EACH COUNTRY. HE NOTED SUGAR MILLS AND EQUIPMENT WERE NOT HIGH ON GOI'S PRIORITY LIST FOR U.S. BECAUSE THEY COULD BE MORE READILY PROCURED ELSEWHERE. BANK OF AMERICA AGAIN REVIEWED EXIM'S COMMERCIAL BANK GUARANTEE PROGRAM AND EXIM'S RECENTLY (FEBRUARY 27) IMPROVED TERMS AND ASSURED AFFIF THAT B OF A WOULD  
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COVER ALL PROJECT COSTS THROUGH EXIM GUARANTEES INCLUDING DOWNPAYMENT. SALEH AFFIF SOUGHT ASSURANCES THAT FULTON ASSOCIATES WAS A LEGAL ENTITY AND REITERATED GOI'S INTEREST IN DEALING WITH SINGLE SUPPLIER WHO HAS TOTAL RESPONSIBILITY. MILLER AND ABERLE ASSURED HIM THAT THIS IS PRECISELY WHAT FULTON ASSOCIATES WAS OFFERING. AFFIF DISPLAYED A DEEP AWARENESS OF CONTRACTING PROBLEMS IN DISCUSSION OF COST PLUS FEE VS. FIXED FEE FINANCING. AFFIF AND HIS STAFF INDICATED THAT IT WAS THEIR BELIEF THAT THERE WAS NO ECONOMIC RATIONALE FOR PRIVATE INVESTORS TO SEEK EQUITY PARTICIPATION IN STATE SUGAR MILL PROJECTS ON JAVA SINCE GOI WOULD PURCHASE SUGAR ONLY AT FIXED, LOW PRICE WITH THE GOVERNMENT ACCEPTING THE LOSS.

6. MEETINGS WERE HELD IN JAKARTA AND SURABAYA WITH  
POTENTIAL PRIVATE SUGAR MIPS INVESTORS AND PROJECT  
PROPOSAL OF WIRONTONO GROUP APPEARED TO BE MOST VIABLE.

7. CATALOGUE SHOW AND TECHNICAL SEMINAR IN  
SURABAYA DREW GREATER THAN EXPECTED ATTENDANCE AND  
WAS WIDELY RECOGNIZED AS A SUCCESS. SEE SEPTELS FROM  
SURABAYA COVERING DETAILS.  
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